



POLICY PRIMER

Responding to Employers: Labour Shortages and Immigration Policy

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This policy primer discusses the conceptual and practical challenges in linking the admission of new migrant workers to the needs of the domestic labour market and economy.

The issue: Are migrant workers needed to fill ‘labour and skills shortages’ and ‘to do the jobs that British workers cannot or will not do’?

A key question in labour immigration policy is how to link the admission of new migrant workers to the ‘needs’ of the domestic labour market and economy more generally. What these needs are, how they vary across sectors and occupations, and how they change during periods of economic growth and crisis are highly contested. There is significant controversy about the role that migrants can, or should, play in meeting ‘skills needs’ and in reducing ‘labour and skills shortages’ in particular sectors and occupations. Employers often claim, especially but not only during times of economic growth, that there is a ‘need’ for migrants to help fill labour and skills shortages and/or to do the jobs that, they allege, domestic workers will not or cannot do. Sceptics, including some trades unions, argue that in many cases these claims simply reflect employers’ preference for recruiting cheap and exploitable migrant workers over improving wages and employment conditions. As unemployment rises, some argue, the economy’s need for migrant workers declines. For example, according to Frank Field, Labour MP and Co-chair of the Balanced Migration Group in the UK, ‘the immigration policy suitable for a boom is totally unsuitable for a recession’ (BBC Online News, 18 October 2008). Parts of the media agree (‘It is time we slashed jobs for immigrants’, Daily Star 29 April 2009). However, others point out there is a highly segmented labour market and a differentiated economy, suggesting that, even during times of economic downturn, new migrant workers are needed and in some occupations they may be critical to economic recovery (Finch et al. 2009).

UK immigration policy attempts to link the admission of new migrant workers to the domestic labour market through Tier 2 of the points-based system (PBS) for regulating immigration from outside the EEA (European

Economic Area). Tier 2 admits migrant workers only if they have a job offer in the UK. There are three admission channels within Tier 2. 1) The ‘shortage occupation route’ admits migrants who are offered a job that is on the shortage occupation list drawn up by the independent Migration Advisory Committee (MAC). To be included in this list, a job must meet three criteria: it must be skilled, in shortage and it must be sensible to respond to the shortage through labour immigration from outside the EEA. 2) Under the ‘resident labour market test route’, employers are required to advertise the vacancy within the British and EU labour market for a minimum period of 4 weeks, and migrants must score sufficient points on education and the wage of the job offered in the UK. 3) The third route of Tier 2 involves ‘intra-company transfers’ defined as employees of a multinational company with at least 12 months company experience who transfer to a job in a UK-based branch of the company. The intra-company transfer route does not include a labour market test but it does require sufficient points on education and earnings in the UK. For further information, see Migration Advisory Committee (2010).

What are the key issues to consider when assessing employers’ claims that migrant workers are needed to fill labour and skills shortages in the UK economy?

Shortages and skills are slippery concepts that are difficult to define and measure

Both shortages and skills are highly slippery concepts. There is no universally accepted definition of a labour or skills shortage and no one obvious ‘optimal’ policy response. The definition of shortage typically underlying employers’ calls for migrants to help fill vacancies is that the demand for labour exceeds supply at the prevailing wages and employment conditions. Most media reports of ‘labour and skills shortages’ are based on surveys that ask employers about hard-to-fill jobs at current wages and employment conditions.

In contrast, a basic economic approach emphasizes the role of the price mechanism in bringing markets that are characterized by excess demand or excess supply into equilibrium. In a simple textbook model of a competitive labour market, where demand and supply of labour are critically determined by the price of labour, most shortages are temporary and eventually eliminated by rising wages that increase supply and reduce demand. Of course, in practice, labour markets do not always work as the simple textbook model suggests. Prices can be 'sticky', and whether and how quickly prices clear labour markets critically depend on the reasons for labour shortages, which can include sudden increases in demand and/or inflexible supply. Nevertheless, the fundamental point of the economic approach remains that the existence and size of shortages critically depend on the price of labour (MAC 2008).

Similarly, although commonly used in academic, public, and policy discourse, 'skills' is a very vague term both conceptually and empirically. It can refer to a wide range of qualifications and competencies whose meaning in practice is not always clear. Some 'skills' are credentialised (e.g. National Vocational Qualifications, professional qualifications, and apprenticeships), but what is and is not credentialized changes and jobs can shift from being classified as 'low-skilled' to 'skilled' and vice versa without necessarily changing in their content. The limitation of formal qualifications as a measure of skills becomes most apparent when one considers 'soft' skills not captured through formal qualifications. They cover a broad range of competencies, transferable across occupations (rather than being specialized) from 'problem solving' to 'teamworking' and 'customer-handling skills'. Soft skills are often said to be particularly important in sectors where social relations with customers, clients, and/or service users are important to the delivery and quality of the work. Certain 'skills' may be necessary to make sure the job is done in a way that contributes to a good service experience, rather than simply to complete the task. For example, the quality of care delivered in both health and social care sectors is affected by the soft skills of those providing care, with some service users actively expressing a preference for personal qualities over formal qualifications.

At the same time, 'skills' can also be used to refer to attributes and characteristics that are related to

employer control over the workforce. A demand for soft skills can easily shade into a demand for employees with specific personal characteristics and behaviour (Payne 2000). Employers may find certain qualities and attitudes desirable because they suggest workers will be compliant, easy to discipline, and cooperative. The fuzziness of 'skill' is further exacerbated by its application to demeanour, accent, style, and even physical appearance (Warhurst and Nickson 2007). As skills soften, these signifiers may assume greater importance for those occupations which have less regulation regarding formal qualifications and where employers consequently have greater discretion in recruitment.

Any discussion of 'skills shortages' needs to be aware that employers play an important role in defining the competencies and attributes that are 'needed' to do particular jobs and in deciding the terms and conditions of the job. In some occupations, the skills and 'work ethic' demanded by employers are partly or largely a reflection of employer preference for a workforce over which they can exercise particular mechanisms of control and/or that is prepared to accept wages and employment conditions that do not attract a sufficient supply of British workers.

Why some employers prefer migrant workers'

A key consideration in assessment of employer demand for migrant workers is that 'what employers want' (i.e. the skills, competencies and attributes required of employees) is critically influenced by what employers 'think they can get' from the available pools of labour (Ruhs and Anderson 2010). The labour supply potentially available to employers (e.g. the unemployed, inactive, migrant workers, etc.) is highly diverse, has different expectations and is differently motivated to participate in the labour market. It is easy to see how, faced with a diverse pool of labour, employers can become increasingly 'picky' and demanding of the types of workers they 'need'. This raises the possibility that employers develop a preference for migrant workers (or particular types of migrant workers) over domestic workers based on migrants' perceived superior characteristics and attributes (Waldinger and

Lichter 2003). This is in practice reflected in employers' common claims that migrants have superior 'work ethic' and 'attitude'. These sorts of claims are typically made for relatively new arrivals rather than for foreign-born individuals more generally. A number of factors may encourage employers to develop such a preference.

Some employers may prefer migrants because of their lower expectations about wages and employment conditions. Research suggests that employers are typically acutely aware of the economic and other trade-offs that new migrants are willing to make by tolerating wages and employment conditions that are poor by the standards of their host country but higher than those prevailing in their countries of origin, and this is not confined to the lowest-paying occupations and sectors in the labour market (Anderson et al. 2006). In the UK, some employers in some sectors such as agriculture openly acknowledge that the wages and employment conditions they offer for low-skilled work are considered unacceptable to most British workers.

Second, some employers may develop a preference for migrants because of the characteristics and restrictions attached to their immigration status (see e.g. Bloomekatz 2007). In most high-income countries, immigration policies are characterized by a multitude of different types of status. Each status (such as work-permit holder, student, working-holiday maker, and dependent) is associated with different rights and restrictions in and beyond the labour market. These restrictions, which cannot be imposed on citizens, may give rise to a specific demand for particular types of migrant workers. Some employers, especially those finding it difficult to retain workers in certain jobs, may prefer workers whose choice of employment is restricted, as is usually the case with recent arrivals and migrants on temporary visas. Immigration requirements can make it difficult for migrants to change jobs. From the employer's perspective, the employment restrictions associated with particular types of immigration status may make migrants the more 'suitable' and easier to retain in jobs that offer low wages and poor employment conditions (Anderson 2010).

Third, because of their different frame of reference, new migrants may be prepared to accept jobs whose

skill requirements are significantly below their actual skills and qualifications, creating 'high quality workers for low-waged jobs', who may well be more attractive employees than the available British workforce. In some cases, employer demand for particular groups of migrant labour may reflect a demand for specified skills or knowledge related to particular countries, including foreign language skills. In a globalized economy, in both high and low-skilled sectors, employers may value the knowledge and contacts migrants bring from their countries of origin. Whether or not these specialized skills which are related to particular countries or regions can be taught to, and acquired by, local workers, and consequently, whether certain products, trade links, and services can only be provided by workers from particular countries is more contested in low- and medium-skilled occupations such as mid-level chefs than in high-skilled occupations such as financial services.

The perceived advantages of recruiting migrants can also include employers' preference for a 'self-regulating' and 'self-sustaining' labour supply (Rodriguez 2004). Employers can use migrant networks to control and regulate the flow of labour. In the UK, recruitment through migrant networks is thought to be a very common practice among employers with a migrant workforce. Companies with a demand for a flexible workforce may make use of employment agencies to help find suitable workers. Since employment agencies often have significant numbers of migrant workers on their books, they can play an important role in impacting on the national composition of the workforce.

Alternatives to immigration

In theory, at an individual level, employers may respond to perceived staff shortages in different ways. These include: (i) increasing wages and/or improving working conditions to attract more citizens who are either inactive, unemployed, or employed in other sectors, and/or to increase the working hours of the existing workforce; this may require a change in recruitment processes and greater investment in training and up-skilling; (ii) changing the production process to make it less labour intensive by, for example, increasing the capital and/or technology intensity; (iii) relocating to countries where labour costs are lower; (iv) switching

to production (provision) of less labour-intensive commodities and services; and (v) employing migrant workers.

Of course, not all of these options will be available to all employers at all times. For example, most construction, health, social care and hospitality work cannot be off-shored. An employer's decision on how to respond to a perceived labour shortage will naturally depend in part on the relative cost of each of the feasible alternatives. If there is ready access to cheap migrant labour, employers may not consider the alternatives to immigration as a way of reducing staff shortages. This may be in the short term interest of employers but perhaps not in the best interest of the sector or the national economy. There is clearly the danger that the recruitment of migrants to fill perceived labour and skills needs in the short run exacerbates shortages and thus entrenches the certain low-cost and migrant-intensive production systems in the long run.

It is important to recognise that employers do not make their choices in a vacuum. Employers' incentives and business and recruitment strategies are critically influenced and in many ways constrained by the wider institutional and regulatory framework that is, to a large degree, created by public policies. Public policies have often incentivised – and in some cases left little choice for – employers in some sectors and occupations to respond to shortages through the employment of migrant workers. The UK has long prided itself on its labour market flexibility and its relatively low levels of labour regulation. Together with a range of policies from training to housing, this stance has contributed to creating a growing demand for migrant workers.

For example, in the construction sector the difficulty of finding suitably skilled British workers is critically related to low levels of labour market regulation and the absence of a comprehensive vocational education and training system (Chan, Clarke and Dainty 2010). The industry is highly fragmented. It relies on temporary, project-based labour, informal recruitment and casualised employment. These practices may have proved profitable in the short term, but they have eroded employers' incentive to invest in long-term training. As a consequence, vocational education provisions are inadequate for the sector. By contrast,

many other European states have well-developed training and apprenticeship programmes, producing workers with a wide range of transferable skills. It is often these workers who are doing jobs in Britain such as groundwork, or foundation-building, which is low-paid and which has no formal training requirement, despite years of lobbying by contractors.

Social care is another sector where public policies have created and increasing demand for migrant workers (Moriarty 2010; Cangiano et al. 2009). Two thirds of care assistants in London are migrants. The shortages of social-care workers and care assistants are largely due to low wages and poor working conditions. Most social care in the UK is publically funded, but actually provided by the private sector and voluntary organisations. Constraints in local authority budgets have contributed to chronic underinvestment. Together with the structure of the care sector itself, this approach has resulted in a growing demand for low-waged, flexible workers. Simply cutting benefits, or reducing legal access to migrant workers without addressing the causes of British workers' reluctance to apply for jobs in the sector, will put more pressure on an already creaking system.

Mind the gap: labour immigration and public policy

Linking the admission of new migrant workers to labour and skills shortages requires critical analyses of what constitutes 'skills' and 'shortages', how to measure them, and debate about whether immigration is the best response to the shortage. While the first two questions are challenging, it is important to recognise that the third question about alternative responses to shortages is an inherently normative issue that does not have a single 'right' answer. Deciding whether the optimal response to shortages should be additional migrants, higher wages, or some other option is a necessarily political issue that requires a balancing of competing interests.

A second important implication of research for public and policy debates in this area is that employer demand for migrant labour is not simply a consequence of lax immigration controls. Neither can it be reduced to slogans such as 'exploitative employers', 'lazy

Britons won't do the work', or 'migrants are needed for economic recovery'. The UK's increasing demand for migrant workers arises from a broad range of institutions, public policies and social relations. Reducing or at least slowing down the growth in this reliance – a policy goal of the current Government – will not happen without fundamental changes to the policies and institutions that create the demand. This includes greater labour market regulation in some sectors, more investment in education and training, better wages and conditions in some low waged public sector jobs, improved job status and career tracks, and a decline in low-waged agency work. In the short- to medium term, these changes are unlikely because of the economic downturn and budget cuts which may well in fact increase demand for migrants in low-waged sectors such as social care. In the long term, the key question is whether the UK is really able or willing to make the kinds of changes in wider public policies in exchange for fewer new migrants.

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The Migration Observatory

Based at the Centre on Migration, Policy and Society (COMPAS) at the University of Oxford, the Migration Observatory provides independent, authoritative, evidence-based analysis of data on migration and migrants in the UK, to inform media, public and policy debates, and to generate high quality research on international migration and public policy issues. The Observatory's analysis involves experts from a wide range of disciplines and departments at the University of Oxford.



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